BEFORE THE TAX CREDIT REVIEW COMMISSION
STATE OF MISSOURI

NOVEMBER 16, 2012

GLOBAL ISSUES COMMITTEE MEETING

(Starting time of reporting: 10:06 a.m.)

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GLOBAL ISSUES COMMITTEE MEETING
held at the
University Club of MU
107 Conley Avenue
Columns C Room
Donald W. Reynolds Alumni Center
Columbia, Missouri 65211

BEFORE:

Steven Stogel, Co-Chairman
Senator Chuck Gross, Co-Chairman
Luana Gifford, Member
Jim Anderson, Member
Pete Levi, Member
Mark Gardner, Member
Craig Van Matre, Member (via telephone)

Commission Staff:

Chris Pieper, Acting Director Economic Development
Jason Zamkus
Sallie Hemenway, State Budget Director

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(Starting time of record: 10:06 a.m.)

P R O C E E D I N G S

(November 16, 2012)

MR. ZAMKUS: That imposed a positive return on investment requirement upon Economic Development Programs, most notably the Compete Missouri and the Missouri Works proposals. Both of which were -- well, Compete Missouri was contained in the House Bill 115 which probably made it farthest in the taxpayer reform proposal during the regular session in 2011, and it's also contained in Senate Bill 8 during the special session. Unfortunately, neither of those two pieces of legislation made it across the finish line.

CO-CHAIRMAN GROSS: We're fortunate that Jason is with us now. Last year, he was a member of Senate Research.

MR. ZAMKUS: Correct.

CO-CHAIRMAN GROSS: And drafted all -- or virtually all of the legislation that was drafted in the General Assembly.

MR. ZAMKUS: On the Senate side.

CO-CHAIRMAN GROSS: So, we've got a great history there from Jason.

Any questions for Jason?

(No response.)

CO-CHAIRMAN GROSS: In that case, if we could ask Ryan Dabsen (ph) and Tom Johnson, they were with Public Policy, and Alan Spellman with the Economic Development Research Unit to come forward for their presentation. I think you all previously agreed to a combined 30 minutes.

Proceed.

MR. SPELLMAN: Thank you. My name is Alan Spellman for Research and Development, and I wanted to start by just kind of giving you a little bit of a quick overview of what Form 14 requires us to report. I note that your committee has the basics of it.

The Form 14 has a section for benefit cost analysis for all of income tax credits that we were asked to analyze. So, what we take is the projects that were approved in the last fiscal year and consider all the credits that were approved for those as the cost to the State. So, those are the foregoing tax revenues that we assume are not going to be provided to the State over time. These programs are given to us. We analyze those programs and, over time, because, obviously, projects happen over time, and then return a general revenue benefit cost number as required by the form.

We also have a section that allows us to put other benefits which is where we put the impact to

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gross state product, to personal income, and others. So, we have all of those numbers available; but, of course, the one that is obviously focused on is that BC for the June revenue that is up there. The form has two parts, or two numbers to BC numbers, an one year and a multi-year.

The one year is something I wanted to make you aware of. It's not something that we feel is a very valid measure, because it is a measure that just looks at something through a one-year time period whereas most credits, the activities, the benefits, the construction investment, the operation happened over time and, usually, the credits are redeemed over time as well. So, what you do, typically modeling, is you take out those benefits and those costs, those number of years, and add present value into the current year that you're looking at.

That means the multi-year benefit cost ratio is the one to pay attention to with that, because the year one will not give you an accurate reading of benefit cost. Those numbers, we report every year, and we do them for all tax cuts. So, the Form 14 booklet has, I think, alphabetically basically all the tax credits in the Department, so you have a mixture of Business Development or Economic Development Tax Credits going in line with Nonbusiness Development Credits such as Housing and Community Development Credits. So, the policy makers will

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see each one in order, more alphabetically, I think, that's really the design of the programs and the goals of those programs.

So, I think that's another thing that probably has a little bit of confusion as people go through focusing on the benefit cost analysis. They're not, maybe, having the time to focus on whether the goal of this program is different than, say, the goal of a business development one. So, I think that, going through there, is probably an issue that adds a little bit of confusion. But that Form 14 is the one window that people can see for some of those tax credits.

We do tax credit analysis for some, perhaps, year round that require that, such as build programs, quality jobs. This annual report that we do adds in something we're not required to do on that per project basis, such as Low Income Housing and so forth. Those are added up at the end of the year.

CO-CHAIRMAN GROSS: And the annual report is required by State audit?

MR. SPELLMAN: That's correct.

CO-CHAIRMAN GROSS: Okay.

Counsel have comment?

CO-CHAIRMAN STOGEL: No.

MR. PIEPER: If I may. Chris Pieper.

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The Form 14, I think just for everyone's benefit, is a tool that, while the Commission is using it for the purposes of -- for a variety of different purposes, the major reason and the reason it's in law and who we submit those reports to, it's to the Appropriations Committees in the two -- in the Senate and the House. And for that particular audience, obviously, that general revenue return is a significant matrix that, you know, the budget makers look at.

But, as Alan said, there are other matrix that are on that Form 14, like increase to growth state products, number of units, number of projects, and other outcomes the State meets. The Form 14 by statute and by instructions from the two committees in the House and the Senate, it really focuses on that general revenue return.

But that's not necessarily a measurement of effectiveness. It's a measure simply of what's that -- you know, is it a buck for a buck, or what general revenue is coming back. So, there's other ways, obviously, to measure those programs.

MR. SPELLMAN: The next part I wanted to talk about is more that what common measures are used in economic molds and some of the models out there.

Of course, there are a number of models out there and, basically, most of them start with Federal

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Bureau of Economic Analysis input/output multipliers, but then models to build on that to apply for things such as regional purchasing of materials versus what leaks out in the Committee. So, it gets more sophisticated based off of those general numbers. The -- but, generally, they all report jobs and the multiplier affect that jobs would have.

So, you would have direct jobs of any activity, and then the spending on those. For example, you have a manufacturing plant and a new one locates, they may produce fabricated metal. They're going to need to buy inputs, those inputs would spur additional jobs and, then, of course, all those income the workers would make would affect consumer spending. So, you have those extra expenses that jobs are accounted for, wages, personal income that go along with that.

And, then, finally, GSP, or gross state or domestic product, is typically out there as well. So, that's the value added that's reported. And the more complex model such as IMPLAN and REMI, that -- that we'll talk about here in a minute -- also adds a fiscal component. So, they try to estimate those taxes that are going to be generated from that model as well. And that's, of course, with our requirement to do the Form 14 and to analyze tax credits before they return the general

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revenue, that fiscal component is, obviously, very important.

Now, there are two common models used out there, IMPLAN and REMI, and both of those are models that take into account the fiscal side of things. They have the same starting point in terms of the Federal BA numbers, input/output numbers, but then they expand on that.

So, IMPLAN does a -- is a model that computes all the direct job effects -- I'm sorry -- all the indirect job effects, wages, gross state product, and so does REMI. The key differences I would say is that IMPLANs are what we call static molds. It looks at budget input in time. So, it will do a -- look at this Committee as of this year, here's what happened, so you put your inputs in there and it produces outputs.

REMI is a dynamic model that goes over many years, so it takes into account some of the changes that may happen over the years. One of the things that it does is adds a cost component. It assumes that, when new jobs are added to the State, some of those jobs come from people outside the State. They move into the area and bring with them families and have added cost of public services. So, it has a little bit of that cost factor that some molds don't have, but it assumes added costs

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when you have those benefits as well.

Secondly, it does something we call displacement analysis. It basically allows us to look at industries that compete really heavily in the local market by retail restaurant. It says that when a new retail or restaurant facility moves in, they're going to be competing with others in that area for business. So, they may have 50 new jobs in that one restaurant, but it assumes some displacement from other restaurants that happens as well. So, you may lose a job in one restaurant here and there, and that basically increases that net now down to something like 30 jobs, for example.

So, that displacement availability is really a nice feature that understands what really is happening in common, when you have locally competitive businesses coming in. And it's something that the REMI does itself, so that saves us time, because we're doing a lot of impacts and, of course, we want to be doing impacts that are needed on a day in/day out basis for projects that come in. So, the ability for it to do that more complex over-time analysis really speeds up our process.

MR. JOHNSON: Yeah. Alan has done a good job describing the differences between REMI and IMPLAN. I've used both models. IMPLAN works best for small projects in local areas whereas the REMI model works

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better when you have a bigger project, because the displacement effects are more likely to occur and it looks at changes in markets and looks at potential price changes and so on. So, it's better in that sense.

It's a little harder to introduce a clear accurate scenario. If you're used to both of them, it's a little easier with IMPLAN because you can get into -- open and get under the hood, if you will.

CO-CHAIRMAN GROSS: And just so we can be clear on the tape, please introduce yourself.

MR. JOHNSON: Oh, I'm sorry. I'm Tom Johnson. I'm an implied economist here in University of Missouri Department of Public Affairs and Department of Economics.

CO-CHAIRMAN GROSS: Sorry to interrupt you.

MR. JOHNSON: It's really important that the scenarios be set up correctly. And I can talk more about this at a later point, but when you're doing benefit cost analysis, it's very important that you also measure the opportunity cost of the -- not just direct, but also the indirect. And, generally, these models do not do that, either of them, unless you create a scenario very correctly, and we can talk about that a little bit later.

CO-CHAIRMAN STOGEL: Just to speak on that, Tom, we all have this document where you did some analysis

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of some projects. Is that correct?

MS. HEMENWAY: It should be in the packet.

MR. PIEPER: If they were distributed. I can get some out. I don't know if they have them right now.

CO-CHAIRMAN STOGEL: You said either model factors in the opportunity costs?

MR. JOHNSON: The opportunity cost of the indirect effects. You're doing benefit cost analysis. The standard prescribed way of doing it is not to include secondary interacts because, in general, in an economy where you're fully employed, the displacement effects that Alan talked about are true of the indirect effects as well, and, so, that if you -- if you took that equivalent amount of tax dollars and spent it on highways instead of on the targets of these tax credits, you would have approximately the same effects.

CO-CHAIRMAN STOGEL: Has the opportunity caused the -- could it -- what else it could have been spent on, of the multiplier affect?

MR. JOHNSON: That's right. Yes. The way it is typically done, the costs in terms of the taxes were gone where the opportunity cost -- the direct opportunity cost, the cost of the program, but what IMPLAN and REMI do is calculate the multiplier affects, and unless the

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scenario is set up correctly, unless the models are running correctly, they ignore the opportunity cost of spending that on some other project because, as Alan said, when you induce the investment in a manufacturing plant, it buys materials, it pays labor, and so on.

But if you were to use those same tax dollars to build, to investing in roads or in other public purposes, they would also have a multiplier affect, and those multiplier affects are what you look. The standard approach and benefit cost analysis is not to include the indirect multiplier affects at all.

CO-CHAIRMAN STOGEL: I saw in the report to the Commission and the Legislature --

MR. JOHNSON: Right.

CO-CHAIRMAN: -- are multiplier affects included in both REMI and IMPLAN?

MR. JOHNSON: They are.

CO-CHAIRMAN GROSS: To note, I think it's from Alan that both of the models actually had new computing direct cost. Did I hear that wrong?

MR. SPELLMAN: No. The IMPLAN does no calculating of indirect cost.

MR. GARDNER: Which?

MR. SPELLMAN: IMPLAN does not. REMI, because it's a dynamic model and goes over many years, it

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assumes that if you're going to add jobs, for example, manufacturing plant over the years, the model assumes not all of those people are going to be from the area. It will pull in some migrant -- what they call economic migrants, and they'll have families, and so they will have cost to infrastructure to public services. It's small, but it does account for some of that.

And that's what the examples when I run IMPLAN versus REMI, you'll see REMI typically gives more conservative efforts, and that's primary the reason why, because over time, there is cost to the State as well. And that's a difference.

The opportunity cost that we're talking about is that's what the alternative of that monies, you know, reality what we could use that money for. Some examples are placing that money back into a treasury bill, for example, for that same time and computing compound interest on top of the lost tax credit. Another being returning it to the taxpayers, for example, and increasing their income.

So, there's many -- there's a lot of what-if scenarios, I guess, you could model for these, and they could change per credit. You could have an opportunity cost for low income housing that's different than, say, this is the double tax credit because your

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opportunities, you have opponents and proponents of the issues, the opportunity of not having low income housing, having people travel much further. They have to travel to the downtown area.

San Francisco, they priced out the low

income workers who still need to have service jobs there but they have to travel. So, they're increasing traffic and there is wear-and-tear on the road. That's an opportunity cost because that's a lost opportunity for them to be downtown.

That's just an example. All tax credits have a different goal and, so, the opportunity cost, how it's measured, is, obviously, an important thing. It's just harder sometimes to actually figure what that is.

CO-CHAIRMAN STOGEL: In the multi-year benefit cost analysis, is there a present value factor?

MR. SPELLMAN: It is present value, correct.

CO-CHAIRMAN STOGEL: What kind of rates are you using today? Is there change because of the historically low interest rates?

MR. SPELLMAN: Updated REMI updates personal consumer expenditure rates, CPA inflation rate, but a little more conservative.

CO-CHAIRMAN STOGEL: Today would be 2

percent.

MR. SPELLMAN: It's around 2 percent typically.

MR. ANDERSON: Question for Alan, if I could. Question's going to be about quality jobs, specifically in terms of the job creation numbers. And I know, years ago, I think some of the analysis was more on the estimated or projected jobs. Certainly, I think today it's the actual jobs created.

You want to comment on quality jobs and that particular aspect in terms of how you model, because there's been ongoing questions related to the Quality Jobs Programs specifically.

MR. SPELLMAN: Sure. The Quality Job Programs requires an annual report that requires a more in-depth analysis of the actual program than the Form 14 does.

Form 14, we're doing everything the same in terms of apples-to-apples. We look at every project that's approved, and assuming that project happens, assumed credit for that project. Here's what BBC is over time. The Quality Jobs requires the actuals as well. So, it's looking backward and saying, Well, what did happen, you know; and, then, of course, typically, Quality Jobs is a perfect example of where, if an activity didn't happen,

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the credits didn't happen.

So, these are primarily linear models. These aren't small -- small impacts that they're not changing the whole economy of Missouri. They're just one business coming in. So, typically, if a business is going to create jobs, and then, looking backwards, they didn't create a hundred, they created 50, and they only had 50 percent of that tax credit given to them, the BC is -- relatively is the same. It's not going to fluctuate that much.

So, we find that when we do look backwards at those, you still -- even with that, you would still have a mix of unknowns because some projects haven't come all the way to fruition yet. But you do have some more actuals. And I think in the last report that we did it was around 3 to 4 return on dollars. So, 3 to 4 return on the dollar as opposed to the Form 14 which is a little over 4. So, it does -- in that case, it did lower it a little bit. But as long as the credit is only given out for performance, then that will protect the taxpayers from funding something that does not happen. Obviously, that benefit has not happened, and you get the all the cost if there's not a check.

MR. ANDERSON: Thank you. I know there has been a lot of confusion, especially on Quality Jobs and,

again, the analysis you give is performance-based credit. There's a lot of misunderstanding, a lot of confusion on Quality Jobs and how it's analyzed and modeled. I respect that additional characterization.

CO-CHAIRMAN STOGEL: I'm not sure.

MR. LEVI: In the Board community where the tax credit is used and creates economic opportunity, are these models sufficient enough that they show some of that activity that may seek out cross state? These are really actual estimates of what the activity is just for the State of Missouri.

MR. SPELLMAN: They have regional purchase and efficiency. What that means, I like to equate it to computers and what a lot of businesses buy, they have to buy computers. So, the REMI model says, Well, if you paid a million for computers, where does all that money go. Well, some of it goes to the wholesalers and the businesses that sell you that, but, ultimately, most of that income goes to the manufacturer of that computer, and it's not in Missouri. So, that income leaks out of the state. And it will have less of an impact because of that.

So, in the same case with automobiles, you know, if your company is purchasing trucks -- we do make trucks in Missouri -- but the model doesn't assume we're

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all going to buy Ford trucks. It assumes what's called cross-hauling. We like Ford trucks and I would like to buy a Ford truck, but maybe that company buys Toyota. Both IMPLAN and REMI.

MR. LEVI: Is there a coefficient for each industry that does that?

MR. SPELLMAN: There is. There is.

MR. VAN MATRE: Could I ask the Professor a question?

CO-CHAIRMAN GROSS: Tell us your name, please, and go ahead.

MR. VAN MATRE: This is Craig Van Matre.

Professor, part of the opportunity, I guess, in analysis or multiplier affect is the fact that tax dollars in the first place came from taxpayers' pockets, and had they not paid the tax, the taxpayers would spend that money on something else. So, they have lost the opportunity to spend that tax money, and would that not hold the multiplier affect on the government side, a negative multiplier affect on the taxpayers, effective on the loss of the vote of I would like to buy something instead, like a suit or landscaping or something like that?

MR. JOHNSON: Yes. That's exactly my point. The opportunity cost is not only the cost of the

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tax credits but the impact that those tax credits would have if they were used for another purpose. And, generally, unless the scenarios are carefully constructed to add the multiplier affect of the tax credit target and then subtract the multiplier affect of the taxpayers buying whatever they would buy with it or the government spending it on another purpose, that is a source -- a most common source of overestimation of benefits when using models like REMI or IMPLAN.

MR. VAN MATRE: Now, does the REMI model or the IMPLAN model take into -- I think I heard you say IMPLAN doesn't -- but does the REMI model take into account the negative multiplier affect of taking tax dollars away from the public and spending them on other things?

MR. JOHNSON: No, not unless the scenario is constructed that way. And it does not automatically account for the multiplier affect of the opportunity costs. That has to be introduced as part of the scenario.

MR. VAN MATRE: Thank you.

CO-CHAIRMAN GROSS: Is there a model or can you adjust these models to do that?

MR. JOHNSON: You can adjust these models to do that. All models are waiting for you to put inputs into it. So, you can tell it to negatively shock the

consumers spending form. Million dollars tax credit, obviously, that in itself is a forgone tax. You can say, Take a million dollars out of the people's pockets and shocks. And you can do that with IMPLAN, REMI, or any mold.

CO-CHAIRMAN GROSS: Go ahead, Craig.

MR. VAN MATRE: And could we build that in? Could we recommend that that would be built in to every

REMI study we would do?

MR. JOHNSON: I think it should be, yes. It should be part of the standard benefit cost analysis.

CO-CHAIRMAN GROSS: Just a question. Why haven't you done it? With the downside of doing it, why haven't you done it?

MR. JOHNSON: Well, the downside is that, if that is going to be the affect of what is the actual activity of those dollars, other than going to that tax or to that purpose. The question is what is the real likelihood of those dollars going back to consumers, is that what's going to happen, or is it going to go back into government programs. I think it's just an unknown of what you typically want to model your opportunity costs at the most realistic scenario. What is the realistic scenario of those dollars actually doing something.

That's not a bad approach. That's an

approach, but we wanted to make sure that that the opportunity cost of that program is standard for all of those programs. We want all programs the same.

And the secondary question, is that a reasonable assumption that we think those numbers would be returned to taxpayers modeled that way. We want to get exactly as possible, and that's our only -- only talking point. But I have no problems entering that into the models. We just wanted to make sure that that's the plan for it.

CO-CHAIRMAN STOGEL: Is this model something like a package the State buys that DED actually runs?

MR. JOHNSON: That's correct.

CO-CHAIRMAN STOGEL: And you can tailor it to different matrixes if you want, but you can do it right here?

MR. JOHNSON: It's different scenarios. Yes. You can tell it to do different scenarios.

CO-CHAIRMAN STOGEL: Does the University have it or do you share access?

MR. JOHNSON: No. I don't have REMI right now, but I have IMPLAN and I have used REMI.

CO-CHAIRMAN STOGEL: So, is there also any comparison on the different tax credit programs, here's

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the revenue math and here's the IMPLAN math to see if they're relatively close or far apart?

MR. JOHNSON: Yes. Actually, right behind you on the screen, and these documents, you set that up so perfectly.

CO-CHAIRMAN STOGEL: I didn't know this was coming.

MR. JOHNSON: We have both models, DED as well, and what we did is model a few scenarios just to see what the differences would be over a short period of time.

CO-CHAIRMAN GROSS: For those on the phone, I'm sorry. Is this available?

MR. PIEPER: These were distributed to the members of the Global Issues Committee in an earlier email, but I can if it's not readily available.

MS. HEMENWAY: What we can do is describe for those on the phone each of the components we're looking at on the screen.

MR. JOHNSON: Yes. Example -- for these business project examples, there's a research center located in Missouri. They have durable equipment investments of $921,000 in 2012, and they add 460 jobs that are operational jobs. They're going to employ that many people and start that work in 2012. They are incentivising this $1.49 million amount of tax credits.

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That tax credit is going to be spread out over the years 2012 to '16. So, there will be a present value that is less than 1.94 million.

The economic impact analysis then moves down to the examples of what IMPLAN and REMI produce when you get to that information in there. So, new jobs from those 460, direct IMPLAN estimates 1226 new jobs, whereas REMI indicates 847. The labor income is about 294 million for IMPLAN and 212 million for REMI, and I'm rounding this. The GEP value-added IMPLAN is 526, 27 million, and for REMI is 735 million. And, then, the revenue -- the State revenue is $19.6 million as assumed to be generated through the IMPLAN model, and in the REMI model it's 15 million, 15.7 million.

Now, the IMPLAN model, we calculate the REMI model each year to the budget, State budget, for the fact that we have to generate a GR estimate. So, we -- about a month in the summer, we take the OA budget figures and we actually enter that into the molds to calibrate the fiscal component of it a little bit tighter. What we don't have in there is local impacts, because local impacts and property taxes which are a big part of that local sales, IMPLAN and REMI have a lot of numbers that come out. And the number that you see for IMPLAN is the 19.6 million takes out the property taxes that IMPLAN

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calculates, because those are mostly local. Those go mostly to the local areas. So, in actuality, the IMPLAN number is even bigger, but it is because of that property tax which is not usually State revenue.

Then, the total credits are 1.8 million because -- the present value -- so, it wasn't 1.9 but 1.8. So, the math is the State revenue of 19 million divided by the total tax credits, and that's where you get BC.

CO-CHAIRMAN STOGEL: Was this an actual project?

MR. JOHNSON: This was a model of an actual project.

CO-CHAIRMAN STOGEL: Seems like a great deal, because there's so many jobs in a relatively small capital investment.

MR. JOHNSON: Right. This would be a place where they may be going into an existing building where there's already -- the construction investments aren't needed. It's already built, they're just moving.

CO-CHAIRMAN GROSS: The argument or addition is that neither of these measure the opportunity costs of spending those dollars on those tax credits which is something else.

MR. JOHNSON: Right. If you were to take that 1.9 million and then, say, that is the direct cost,

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and then take that out of the disposable income for the State citizens, so minus that, then your BC would be lower. It would be -- I don't know what that would be, but probably not be drastically lower. It would be a special case of development, especially if jobs did not turn the tide, for sure, but it would be lower, yes.

CO-CHAIRMAN STOGEL: But, no matter how you do the math on either model, it's a great deal for the State. In five years, businesses would love to have an eight times payback.

MR. JOHNSON: That's right. It's a big

number, and that is -- that's one example. We did examples of other projects. For example -- maybe not to go through all of them -- but I'll do one that is a community development project. It's kind of the other end of it, if you will. And I think it's the last one.

MR. PIEPER: Okay.

MR. JOHNSON: If you can scroll to it. It says Community Development. One more please. Okay.

This was a credit to build a community center. And, so, there was AN investment of 1.1 million to build a community center. They were incentivised for 350,000 tax credits spread over -- in this case, over the five-year period; IMPLAN and REMI came up with similar job numbers. And, again, that's an example.

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So, what's happening is that it's averaging it out over five years. Your labor income is higher with IMPLAN. It is 780,000 versus 467,000. GP for IMPLAN is 981,000; for REMI is 1 point -- just over 1 million. And, then, State revenue is 38,000 for IMPLAN and almost 20,000 for REMI. With the tax credits of 333,000, almost you have a BC ratio of 12 cents on the dollar for IMPLAN, 6 cents on the dollar for REMI.

Now, clearly, this wasn't a Business Development Tax Credit. There were no jobs tied in term of long-term operational jobs, so this is a case where the goal of the tax credit was not business development, it was obviously to support a development of a community center. And, just like any model, if there's not an economic has-to-have quantifiable numbers that say, Well, what's the economic activity happening in the area. So, as we see with both IMPLAN and REMI, they're giving these low -- these low numbers.

Now, here's a case where the opportunity costs could be again to give those dollars back to the consumers. I think a proponent of this program might say, Well, there's also an opportunity cost of them not having a community center, but what is that. So, opportunity calls for something we all recognize, we know that they're there. It's oftentimes figuring out what is the

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reasonable one to measure. So, that's all it is.

MR. GARDNER: I notice on the other projects -- that feedback is my microphone.

If you look at the State general revenue impact on State general revenue, it's a 2-to-1 between REMI and IMPLAN. Okay. The difference is a hundred percent. Am I correct?

MR. JOHNSON: Close. It is close, yes.

MR. GARDNER: And, then, if you look at the benefit cost ratio, naturally, you would expect that to be the same. There's about a hundred percent difference between the two models.

Now, I find that disturbing. Because I look at that and I go, Okay, could one model be so horribly wrong that if I run these numbers -- let's say I'm sitting here trying to understand the cost benefit ratio of the project and I'm sitting here running a model and you think I should be running the opposite model. I think I should be running REMI and I've got a cost benefit of 406, and then somebody says, No, you really should be running IMPLAN on this, and then the number doubles.

So, I guess what I'm saying is there's this tremendous potential spread between models and what gives us the confidence -- can you go back to the first one? Is this the first one?

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MR. PIEPER: Yeah.

MR. GARDNER: If you look at the State revenue substantially different, the State revenue -- State general revenue under IMPLAN, 19 million, but then if you look at -- and then it's less under REMI.

But, then, if you go to GDP value added, IMPLAN which is higher on State revenue is dramatically about a third lower on value added, GP value added over the REMI. And these numbers, I mean, I look at that and I -- I do some modeling because we sell tax credits and make lots of assumptions when we sell those tax credits, and depending on your assumptions, you know, the numbers move all over the place. I mean, you know that from a model. You change the assumptions, you change the input, and numbers go all over the place.

And I guess, as I understood what you said earlier, you believe REMI is the right model to use as opposed to IMPLAN, at least in this scenario. But if -- what if we're 50 percent wrong? What if there should be some blend of REMI and IMPLAN and our numbers are totally different?

And I guess what I'm asking is how confident are you of the REMI numbers as compared to the IMPLAN. Because I'm assuming you're using these examples to show us why the two and how the two differ and you're

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going to give us an explanation as to the fact that, although there is this tremendous spread in the outcome, why the REMI number's the better number.

MR. SPELLMAN: I can speak to that, and maybe also help us to go through kind of the idea of a total six, and if you look at them in general. It's not a 2-to-1 difference. In general, it's, you know -- we have here 8.6, 10.7 -- if you scroll to the next one -- 7.5 to 8 point -- or 4.9. 1.26 to 1.03. And, then, this case, a .38 to a .27, and then, finally, I think the last one, the multi-housing product is 13 cents to 5, and then that one.

So, there is -- so, generally, REMI does this -- REMI looks, of course, over time. So, it's what's called a general-equilibrium REMI model. It assumes that an impact happens right now, happens, and then over time the economy kind of adjusts to that. So, the IMPLANs kind of taper off after a while. It also says you move families in there and those families have costs because of these public services, so it takes the costs out of it as well. And in the case of, again, where it sees competitive industries like retail or restaurant, it will assume, Well, all those jobs aren't new. You are competing with others. So, it's, in general, a more conservative model. It is.

And I do have, you know, models or molds,

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and I think that we sometimes give them more power than they maybe deserve. They are very good at doing what they do, but they're not going to -- they're, you know, they're not going to be perfect and they're going to be different, and I think, you know, as long as you mentioned on that first one you have a 10-to-1 return or 8-to-1 return, they're both very good, and that's a confidence level that, you know, I get. The model tells us is this, in general, a good idea or, in general, a bad idea.

It's not to say it is going to be exactly specific. If something's around a dollar return, I think that's when you get -- you kind of have to, Well, it's pretty close. You're giving it a -- it produces a very precise number and, so, we think it's a very precise -- everything in it is going to be exactly the way the economy is going to go. We know the economy does things we don't want it to do, like go in recession.

MR. GARDNER: If there's a dollar for a dollar, that's a good investment from an economic development standpoint?

MR. SPELLMAN: No. I'm saying if it came back as a BC of a dollar to a dollar. So, in other words, you only got a dollar back on your investment, Economic Development Program -- for example, this is a Development Program -- that's where -- there's wiggle room in there,

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and that's too close for my taste. You know, an 8-to-1 or 7-to-1 or 4-to-1, that's a pretty positive one. You know that there's a margin of error in there that is -- that is in there, but --

MR. GARDNER: And, then, when you get away from -- we have a lot of programs. You started out you do tax credits, we evaluate, and you can evaluate them all. You can throw all 62 programs in your model and look at what the benefit cost ratio is.

And, of course, our job is to try to evaluate. It's not quite so simple for us because some of these are purely economic development tools or job creating tools. Those are easy to measure by economics, but many of the other programs we have are not economic development tools. They may have an element of economic development, but they're principally something else.

And, for example, if you put education in your REMI model, what would your cost benefit ratio be?

MR. SPELLMAN: Well, now, it was one of the topics we wanted to cover, because I think that Dr. Johnson's paper really talked about cost effectiveness, and that is certainly a topic that we feel is important, too, because we know the benefit cost analysis doesn't always serve the total goal of assessing a program.

CO-CHAIRMAN GROSS: Alan, let's try

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wrapping this up, unless you have some last minute comments quickly, but I do want to make sure the report you're referring to was distributed to everyone from the doctor. Very good.

MR. JOHNSON: I would just like to point out that there's some very critical assumptions on the line that's kind of analysis. One of those is that every impact occurred because of those tax credits. It assumes a hundred percent additionality. It is unlikely that any broad program gets a hundred percent additionality.

In other words, some portion of those economic changes are going to happen without that program. In some cases, it could be additionality of a tiny fraction of 1, not point. So there are implicit assumptions that there is a hundred percent additionality and every project, ever program should be evaluated according to its additionality in order to do a settlement benefit cost analysis.

Another thing is benefit cost analysis. There's a very standard way of doing it, and it does not involve measuring the ratio to government revenues. Programs are -- should be evaluated according to their goals, and the economic development program has an economic development goal, and that's the outcome, not government revenues. So, I mean, I know this is how it's

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done in the State, and DED is just following the procedures. But that is not how benefit cost analysis is intended to be done.

And, finally, you know, the standard approved way of doing benefit cost analysis would not use a multiplier at all, and I think that's the safest way to do it. A lot of the differences between those two models are about the way their assumptions, underlying assumptions, but it all goes down to whether the multiplier affects should be used at all.

And the standard for benefit costs analysis is not used by the affect because, program after program, the impact of using that tax dollar in any way you want is going to have roughly the same multiplier. So, it cancels out. It's all about the direct affect.

CO-CHAIRMAN GROSS: We've got to move on. This is a topic I wanted to spend more time on than anything else because it's a global, truly a global -- global issue. And our analysis and statements on this issue, I think, mean a great deal in terms of the credibility of the Commission's ultimate report, and because -- and, in addition to that, it was an issue that was hotly debated -- tell me if I'm wrong. I'm not sure if it was publicly hotly debated in the General Assembly, but I know in the hallways conversations I had with

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legislators, it was definitely, and has been as long as I've been -- when I was in General Assembly, it was, and still is today. So, again, I wanted to spend some time on it.

I thank all three of you, back there and the two of you who presented, and ask if you would kindly make yourselves available if either the Committee or Commission needs to rely on you again for some things.

Thank you all very much.

MR. SPELLMAN: Thank you.

CO-CHAIRMAN GROSS: I again encourage all our Committee members and Commission members to really be thinking about this issue as you look for a recommendation for the 2012 report.

The next item that was in the 2010 report dealt with caps. Another noncontroversial item.

Jason, could you talk about what happened in the General Assembly on caps on credits?

MR. ZAMKUS: Well, following the 2010 Commission report, there were a number of proposals, each of which varied to some degree from what the given recommendations were for each given program and what an appropriate cap would be. Just as a -- I probably -- I think it's probably best to just discuss the three most contentious cap issues, Brownfield, Low Income Housing,

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and Historic Preservation.

The Commission recommended a $25 million Brownfield cap. There were a number of programs that followed that recommendation and imposed that cap. Throughout the process, the proposals that seemed to move forward, though the legislative process, increased that cap over time. In fact, the highest cap that was imposed upon Brownfield was a $40 million cap. In Senate Bill 8, that $40 million cap was proposed in the introduced version. There was actually a caveat as well for no more than $10 million that would be available to use Distressed Area by Assemblage Credit. In its final form, the Senate Bill 8 provision was imposed to $35 million cap with a $5 million set aside for the Distressed Area by Assemblage Projects.

With regard to Historics, the Commission recommended a $75 million cap. Proposals ranged anywhere from $75 million to a hundred fifteen million dollars per year in authorizations. The highest, hundred and fifteen million dollars per year authorization cap, was added in the House, to the House Committee substitute for Senate Bill 100. That occurred in the final day or so of the regular session in 2011.

Senate Bill 8 in the special session would have imposed an $80 million cap, and that cap was actually

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included in both versions of the bill that passed the House and Senate. So, it was apparently potentially some consensus there.

With regard to Low Income Housing, there were a number of proposals that mirrored the recommendations of the Commission, some of which actually reduced authorizations lower than what was recommended by the Commission. In fact, Senator Purgason had a bill that would have reduced the string. The Commission recommended $16 million per year with a five-year string. Senator Purgason sponsored a bill that would have reduced that to $16 million on a three-year string, which would roughly be a $48 million tab on the 5 percent credit.

On the high end, it was a $110 million cap on the 10-year stream, and it appears that most recent attempts to cap the Low Income Housing 9 percent credit ranged -- in Senate Bill 8, the House -- or the Senate perfected a hundred and ten million dollar cap that would decrease over time to a $75 million cap by FY 15, and then the House actually reversed direction and went back to the introduced version of the Senate bill which was a hundred and ten million dollar cap over a 10-year string.

MR. GARDNER: Was that on the 9 percent credit?

MR. ZAMKUS: It was on the 9 percent

credit. There were proposals with regard to the 4 percent credit that would eliminate it in its entirety. Senate Bill 8, obviously, the most recent and probably one of the proposals that made it furthest in the process would have imposed a 15 million cap per year on authorizations of 4 percent credit and phase that down $5 million per year until it eliminated the 4 percent credit in its entirety.

Again, the House removed that provision from their version of the bill.

CO-CHAIRMAN GROSS: Wasn't our recommendation to eliminate it?

MR. ZAMKUS: I believe it was.

CO-CHAIRMAN GROSS: All right. And, actually, the Commission's overall recommendation on the issue of caps was not specific to these credits. That was done credit-by-credit in the report. Our recommendations were just reasonable and appropriate that there should be caps on the credits.

A question has come up should lowering caps be considered for credits with declining use. That was you (indicating), or someone else, but it's for discussion. You mean use less and less lowering the caps.

CO-CHAIRMAN STOGEL: The subject is really with the greater recession, are -- excuse me -- are authorizations down from the prior caps. For instance, in

Brownfield, the authorization has been running nowhere near 25 million or 40 million a year. It's been running in the last three years sub 15. On the Historics, the authorization has been running between 90, $98 million, not a hundred and forty. And that -- and that authorization includes small projects, and those exact numbers review to the HDC Committee.

So, for Global Issues, what is the impact of the great recession on actual authorizations compared to the caps that were recommended a couple years ago? And that general question was referred to all the economic committees. That was as far as -- those were recommendations for considerations to the committees. Should caps be revisited, the Committee will, before the Commission?

MR. GARDNER: We had our hearing of 2010 -- I don't know if everybody recalls this, but we had, Steve, and I think we had this specific discussion. With a reduction in economic activity over all the State, we suspected that the usage of Historic Credits were going to decrease.

CO-CHAIRMAN STOGEL: And it was correct.

MR. GARDNER: And it did. It raises an issue -- you talk about the caps and how this relates to caps, maybe it does, maybe it doesn't -- but I think, in

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general, the decrease was for two reasons.

One, the really lucrative big projects, a lot have already been done. So, I think we might be interested -- but you're more in touch with this, toward the side of this than I am, so I may be wrong on this assumption -- that there may be a natural trend toward a decrease in the Historic Credit due to the fact that a lot of the good projects have been done and we have an increasing inventory of projects.

And, secondly, the economic downturn makes the viability of historic projects less attractive. So, we had that down where the question becomes, once the State -- Committee state-wise starts making economic growth again, what's going to happen to the Historic Credit. Are we going to see a return to the old days? The Historic Credit at one time was a very heavily-used credit, and we've seen a pretty substantial drop off in the use of it. What happens when the economy stabilizes again and starts expanding?

Do you have a thought on that?

CO-CHAIRMAN STOGEL: Not addressing these specific numbers for to get ahead of the Historic Tax Credit Committee.

Mark, to answer your question, factually, in St. Louis, the downtown census tracks 1256 and 1257

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which is the Arch to Wells Fargo between the two stadiums, two square miles. In August of 2000, there were 70 major vacant historic buildings.

MR. GARDNER: Seventeen?

CO-CHAIRMAN STOGEL: Seventeen. And, today, there's five or six. So, what you have -- and I'm quite on record -- of this is that there is a decline in the available inventory. There were in that square 11 big buildings, one came down, the old post office. Seven of the other nine are done today. It's just an example of the power and value of the program. But there is less inventory with large buildings. So, I foresee, you know, less use of that credit over time.

I want to address uses of the other two credits Jason alluded to, Low Income and Brownfield. I would like to -- rather to see what the Committee has actually come back on. As with the Historic Committee Capture Plans, there are a lot of buildings yet undone, but the inventory overall has been substantially used. I don't know if in Springfield or Kansas City, but the two other large orbits where the historic credits have currently been needed and used.

MR. GARDNER: I guess the problem I had on that -- and you've kind of confirmed what I suspected -- is depending on where you set that cap. If you set a cap

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on the Historic, I don't think there's any urgency in the State doing all those buildings in the next three years. I think you could actually spread out the time it takes to finish the rehabilitation of the historic buildings that need to be rehabilitated, and that could tie into the cap. It's just a thought.

CO-CHAIRMAN STOGEL: It's good discussion for this afternoon with the Commission. But I guess the question, Senator, for your committee will be is caps still in play.

CO-CHAIRMAN GROSS: I was wrapping that up by asking that question, is there a 2010 recommendation still valid and supported by this committee and that was that we recommended that were appropriate and feasible the General Assembly impose an annual cap on any credits that currently lack statutory cap, recognizing that the annual cap will limit the total amount of tax credits offered annually budget certainty.

MR. ANDERSON: Senator, I think that is

essentially relevant.

CO-CHAIRMAN GROSS: Any kept 2012 recommendation and specifics be dealt with.

The third issue in the report is sunsets. And we recommended a schedule of credits that would be subject to a two-year and four-year and six-year sunsets.

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Jason, anything on that you want to briefly talk about?

MR. ZAMKUS: Sure. Following the business report, there were a variety of proposals that were brought forth to the Legislature, some of which mirrored identically the recommendations. There were a couple of proposals that would have imposed a one-year sunset on all tax credits across the board.

The proposals that seemed to have made it the furthest in the process had closely mirrored the recommendations of the Commission, except for the fact that they did not impose any sunset on the Banking and Insurance Credits. I believe there's a six-year sunset on Social and Contribution Credits that were recommended by the Commission. That was actually reduced in Senate Bill 8 and House Bill 116 in regular session to a four-year sunset, and then those three credits that I mentioned previously, the Low Income Housing, Brownfield, and Historic Preservation Credits, were given a seven-year sunset.

MR. ANDERSON: Senator, from my perspective, I think the recommendations are still very much applicable and inherent in that is that we are proposed to subject to annual appropriations, and I think we want to reinforce that, as well. We do not believe we

should provide subject annual appropriations, but we do believe in sunset; and, frankly, I think the schedule that we determined two years ago is still relevant today.

CO-CHAIRMAN GROSS: What I heard -- I agree. What I heard was more of a bartering thing going on between sunsets and caps, and I think those discussions were beyond what we should even get into, because some of it is just political, some of it is one side of the building versus other side of the building. And that's not any part of our charge.

What I was looking for was anything real there, because there's always -- there's always some discussion about, Oh, my gosh, if you do this, meaning caps, or if you do that, meaning sunsets, then you are going to kill the deal. Now, I don't know. I don't work in this business. I hear what people say about it, and what I'm hoping is that if we, as a Commission -- or Committee in this case, believe that anything has come up new on that issue where our recommendations are going to have impact, we had not realized or considered in 2010, we need to address it in the 2012 report.

MR. ANDERSON: What killed the deal is subject to annual appropriations.

CO-CHAIRMAN GROSS: And we have a separate item on our Committee recommendations on that issue as

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well.

So, is there any -- including those on the phone -- any dissention on repeating our 2010 recommendations on sunset season?

CO-CHAIRMAN STOGEL: I think it's important to reaffirm that the theory of sunsets was that it would give the Legislature and the Governor a chance at a specific point in time and in a specific way to re-examine the program.

CO-CHAIRMAN GROSS: Right.

CO-CHAIRMAN STOGEL: I'm not -- if there is another option besides the sunset statute to achieve the goal the program has for authorizations, a definite period of X years, that at the end of X years the program has to be reevaluated to be continued absent the word "sunset", the theory is of re-look, and maybe there's a different legislative matrix that can be defined to give certainty for a period of authorization, a certainty of re-look, so -- and it's called something else in the legislative fabric so the people can review the cost benefit or the social impact or the analysis, but on the flip side, people can plan.

So, a concept of a re-look by a certain date is what I think the Commission all supported. And broader than the word just "sunset", maybe there's a

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different legislative mechanism that could affect going forward authorizations after a certain date so the Legislature could look at it again.

MR. GARDNER: What we talked about last time -- and I don't remember where we got this information -- somebody said it couldn't be done. And I talked to Legislators after we met, and nobody was sure exactly how to do it.

But the thought was you put the sunset in there, but there is a requirement you can't -- the Senate, for example, cannot filibuster a vote on the program and thereby kill it. The opposition to sunsets, in large part, is the paranoia that comes with sunset and with some of the State Senators who have openly said, We will use the sunset as a way to kill these programs. We will filibuster, we will prevent an underground vote on these programs. We will do exactly the opposite what this Commission is recommending, and we will present a reevaluation of the program. We would assure its death. You look at the sunset program being dead in two years, program's dead in three years, program's dead in four, five, six.

That's the problems you see, the ones you mentioned, if we combined a way -- I don't think the industry, most of these people are going to get that upset

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over an up-or-down vote. But if you can assure an up-or-down vote at the end of six years, I can tell you exactly what happens. When our recommendation goes to the Legislature, everybody affected by our report is going to be -- is going to try to kill everything in the report based on one issue. Sunsets.

CO-CHAIRMAN STOGEL: If there's two -- the purpose of this Commission is not to pick sides but to come up with a different thought. So, either sunsets have to be eliminated in exchange for lower caps as one option, or a new mechanism has to be found, which is way beyond my technical experience, to say in the years the Legislature and Governor shall look at these programs. And it could say they shall continue unless terminated. And, in four years, this listed program will be looked at and they shall continue unless terminated by majority of each of the Houses.

MR. GARDNER: Perfect.

CO-CHAIRMAN GROSS: So, the fact the law has sunsets as a mechanics today --

CO-CHAIRMAN STOGEL: Doesn't suggest we

can't suggest a different mechanic to look at different evaluations.

MR. GARDNER: I believe there is a mechanic that could work.

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CO-CHAIRMAN STOGEL: If we find a different mechanic to avoid sunsets, different lower sunsets, a robust discussion really belongs in the Legislature.

CO-CHAIRMAN GROSS: I wish David Valentine hadn't walked out, because I think he would agree completely that what this really boils down to -- and I agree with everything said, Mark -- what it boils down to is the House not wanting to knowledge seventh tradition. And that's what they're fighting, is they're fighting seventh tradition, because the tradition of the Senate, you have a filibuster. Also, in reality, it's easier to break a filibuster in the Senate than it is in Congress.

The traditions do it, or if you do, you do it at some political risk down the road. It determines all kinds, a mixed bag, but I'm saying the Senate doesn't want to give us this tradition, House tradition sinks, and there's -- there's -- and they service searching for a mechanism, second to last, last tax credits due to sunset in year six. In the absence of any legislation to the contrary, it's automatically renewed for another six years.

CO-CHAIRMAN STOGEL: But it takes a vote to undo it at that point.

MR. LEVI: But without a vote, there is no action by --

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CO-CHAIRMAN STOGEL: I don't know if the legislators would think, but I think the phrase "sunset" is something that needs redefinition here.

MR. ANDERSON: I sense Jason has an accountability mechanism he's going to recommend.

CO-CHAIRMAN STOGEL: Really.

MR. ZAMKUS: To be clear, the legislation that was introduced in the last couple of years, while it was termed a sunset, it was really a prohibition on authorizations. And, to your point, Steven, it set a date certain by which new credits could not be authorized. If they had already been authorized, they would be issued and redeemed after that date until all the previously authorized credits were issued and redeemed.

I guess, Pete, you had indicated having an up-or-down vote to eliminate a program as of the date certain. I would say that that's -- that's the status quo currently, any bill could be filed in any legislative session terminating a credit, and so that could happen this upcoming legislative session. Someone would file a bill to repeat the historic taxpayer program if that Senator or Representative felt inclined to do so.

So, the question is you could, I guess, modify the House and Senate rules to mandate that, you know, debate be limited to regard to a certain subject

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matter; but, once again, the modification of those rules could be done in any given legislative session. And, so, to have the -- those other mechanisms that have been discussed today as an option, I don't think it provides that level of certainty that a lot of the industries are looking for. It doesn't give them any more of a guarantee that the next General Assembly isn't going to decide that they want to modify their rules and allow for filibusters or any of those things that would --

CO-CHAIRMAN STOGEL: Let me try something different like this, and I am unconstrained by the law tradition here. But, if there is a balance and a new paradigm, with the great recession actually where we were in 2010 and the learning of 2011, the special session in 2012, what if all the conversation about cap and sunset were more to formula like two years, four years, six years, and at the end of the second year, four year, six year, under respective programs unless an action, all the credit programs are cut in half. That forces everybody at the end of the term to say why their program should be re-authorized at a higher level, but it also sets a floor on what the cap could be.

So, if there's no agreement, the programs continues at a reduced level, and it doesn't have to be 50 percent, it could be 40 or 60 or two-thirds, or whatever,

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but it's just a flat period, and then there's a change but so you know in that four year or six years there will be a discussion.

MR. GARDNER: I guess I have a basic question. I don't know why we're talking about sunsets. I don't have any -- I'm having difficulty -- my boys had difficulty understanding the obsession with sunsets, why people somehow think that that's some magical solution to something. You can sunset any program you want any day you want. Okay. What is it?

CO-CHAIRMAN STOGEL: The implicit flip side, I think, of why sunsets were discussed the last time are -- was the program would remain untouched until the sunset date. So, the counterbalance is, you know, as a low income developer that your tax rate program is going to be there for the next three or four or five years, so you can go buy property and plan for three years from now.

MR. GARDNER: Assuming the Legislature doesn't forget those inherent understanding to that effect.

CO-CHAIRMAN STOGEL: So, isn't the trade really that, if you have a sunset, there should be institutional buy-in that the program does have that useful life?

MR. GARDNER: Okay.

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CO-CHAIRMAN STOGEL: If there's a useful life to a certain date and then something happens, you can avoid the conversation about sunsets because the quid pro quo has to be, it seems to me, continuation for that period.

MR. GARDNER: What if we recommended sunsets or used language -- perhaps didn't use the term "sunset", but somehow stated that the programs -- I don't know how to fix it.

CO-CHAIRMAN STOGEL: Program shall be authorized between now and June 30th, 2016. After 2016, the program shall have authorization capacity at 50 percent of the prior. So, continuation is what's needed for and assurance is what's needed for people who are out there, be it a social agency or something, trying to move a manufacturing plant or build a low income housing project. It's the certainty that, when you apply for something a year or 18 months or two years down the road, it will be there. The program will be there. So you can continue to make investments and try to bring businesses --

MR. GARDNER: Until 2016.

CO-CHAIRMAN STOGEL: -- you know, four, five, six, will happen.

MR. ANDERSON: Over practical and

simplistic, but the political climate was such there was a real interest, I think, on some for appropriations. We actually did not want that. It was obviously a cry for accountability from the General Assembly, and I think, frankly, we addressed this subject two years ago as sort of spirit of compromise. We do not want to subject annual appropriations, but we're willing to talk about the sunset on this schedule.

In a sense, I think some of that was the practicality of the political climate two years ago.

MR. GARDNER: It was, indeed, what we found out after 2010 after our commission did its work is one of the things there were -- at least one thing I'm aware of that derailed our entire package and essentially resulted in the Legislature not considering the rest of what we recommended was to focus on that one issue -- and that was the sunset issue. So, that became the focal point. That became the poison pill by which you could kill everything. Sunsets, that's a non-starter.

Now, what I am afraid, we get back to the Legislature, again we've got our sunsets that's a non-starter, boom, the thing blows up, we wasted our time, you know.

MR. VAN MATRE: Can I suggest something

here?

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CO-CHAIRMAN GROSS: Please.

MR. VAN MATRE: The problem with the sunset concept is the one-size-fits-all deal, and it lends itself to a lot of political collateral damage and considerations. And if we put these credits on a formability standard that any of those credits don't produce a net positive return based on economic analysis would they be subject to some kind of termination. As long as something's performing and, I guess, you wouldn't worry about it.

What I heard from when the Professor at the University testified was that if you took out the multiplier affect and did a cost benefit analysis, and if the credit is performed on cost benefit analysis, then it would not be subject to termination, but if it weren't, it would be, then there would at least be some kind of performability before you would -- analysis -- before you got into the issue whether or not to terminate it.

MR. LEVI: Are we spending too much time trying to draft what is actually legislation when maybe we can just state the principles that are important to the Commission, one being the certainty of continuation of programs that offer positive return to the State and, secondly, the issue of certainty, the importance of the issue of certainty as manifested particularly by not doing

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annual appropriations and leave the --

MR. VAN MATRE: I think that's a good idea.

MR. GARDNER: Specifically "sunset", I don't know. The use of "sunset" seems volatile as it's stated. It's a lightning rod.

CO-CHAIRMAN GROSS: I think two things on this one.

Looking back at the Governor's original charge of the Commission, I have a hard time finding where sunsets really fit into that charge. I think I get wrapped up into what I personally believe, and that is that sunsets are a great good gathering thing but not necessarily part of the charge of this Commission. And instead of the type of recognition we had with the fixed schedule on years, something more like the two of you are talking about, and that is the principal of review and --

MR. GARDNER: Review and evaluation.

MR. LEVI: We have spent a lot of time of the Commission looking at cost benefit ratios on these tax credits, and that's something the Legislature should continue to do, and based on those -- that type of analysis, should make a decision as to whether or not programs should be continued.

MR. GARDNER: I like that.

CO-CHAIRMAN GROSS: As of right now, we

have that, to look at it.

MR. VAN MATRE: Can I say something? I think that's a good idea. That's what we should do.

CO-CHAIRMAN GROSS: And the other thing is the General Assembly is still going to do what they want to do; but I agree with your point, Mark, that what is the initial reaction going to be if there, you know, is, one, to the Commission reports has sunsets in there again like we did in 2010 that he --

MR. VAN MATRE: Here we go again.

CO-CHAIRMAN GROSS: Might -- might be a little bit of positive reaction if they realize, Okay, we heard the problem that created in the debate. You still have ability of any side of the building to say this bill is not going to pass unless we have sunsets, the legislature part.

CO-CHAIRMAN STOGEL: I do -- I'd like to make one comment. One Legislator can't find another, that the concept that programs exist in certainty of them staying in allows for planning and fulfillment of that purpose. A review periodically is a good thing to call for; but, if a program is terminated, I think this Committee or the Commission should adopt a transition rule recommendation so that somebody who has spent a lot of time, effort, and money under an expectation the program

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would exist isn't left out in the cold, so that there's some benchmark crafted for each program that allows a grandfathering for that effort.

Because if you take your housing project, go buy a piece of landmark, you're out there, and in the 2013 session they eliminate Low Income Housing but you've spent X dollars on land expecting the program to be there, and so some other folks -- and it's enough of a dollar level that it shouldn't have been called on -- or Pete's trying to get a business to come from the Kansas side to the Missouri side and there's quality jobs in play or Jim's trying to get a new business for Springfield and you're spending a month -- or, I'm sorry, 18 months or two years in that process and the taxpayer program ends in August of 2013, you're going to lose all that effort and that goodwill. So, there could be some sort of transition rule when a program is ended.

MR. LEVI: Couldn't we mark that part of the statement, if Legislature says a program is terminated that an adequate and fair period of time is given before that termination actually occurs?

CO-CHAIRMAN STOGEL: Yeah, something like that.

MR. GARDNER: So they can't flip a switch and it is off.

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CO-CHAIRMAN STOGEL: Right.

CO-CHAIRMAN GROSS: So, we're going to have language drafted, and we'll consider that, hopefully, later this morning as well.

Let's move on to Item No. 4 which was the repeal of 28 tax credits. And I have the list here (indicating). I am going to rifle through these just in case there's one that -- something should be pulled out of that recommendation.

The Wine and Grape Producer, Charcoal Producers, Wood Energy, Self-employed Health Insurance, Family Farm Breeding Livestock Jobs, Rebuilding Community, Incubator, Film Production, Rolling Stock, Brownfield Demolition, SBA and USDA Loan Guarantee. Capital Tax Credit, Community Development Bank, Certified Capitol Company. New Enterprise Creation, Research Tax Credit, Seed Capital, Transportation Development, Dry Fire Hydrant, Enterprise Zone, New Markets, Land Assemblage, Residential Dwelling, Disabled Access Small Business, Police Officers Surviving Spouse. Family Development and Health Care Access.

MR. ANDERSON: Senator, you know part of the call, but the Economic Development Committee called on a conference call, and the only recommendation is different -- of course, we'll hear this this afternoon from our regional report -- the Film Tax Credit opposed to -- sunset normal time November of 2013. So, I'm not sure that we would make a change here on the list you just provided, but that is a little bit of a nuance that we're recommending.

CO-CHAIRMAN GROSS: I heard that, and to state very quickly, our 2010 recommendation, I think it's still consistent, says, in addition to recommendations for program elimination direction elsewhere in the report, Commission recommends the General Assembly reveal tax credits which have expired and otherwise out of their usefulness which might be part of discussion in a manner that has a re-dealing of credits.

MR. ANDERSON: I would not recommend a change from the list you just described relating to the Film, but we would make that amendment this afternoon.

CO-CHAIRMAN GROSS: Any dissention on this recommendation going forward, again, in 2012?

MR. LEVI: this isn't a dissention, but the Community Development Committee also made a recommendation by rolling some of these up into a more flexible program, and I don't know if all the ones you all listed were included in our roll level. Sally would remember better than I.

CO-CHAIRMAN GROSS: Again, we say that in

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addition to recommendations.

MR. LEVI: So that, in addition to, would cover the roll of it. Okay.

CO-CHAIRMAN GROSS: Basically, what we're saying, unless it's dealt with elsewhere, get it.

Sally, is that about right? Okay.

Any other comments on that recommendation?

(No response.)

CO-CHAIRMAN GROSS: Then that will move forward in 2012.

The reply had to do -- deals with carry forward and carry back provisions of the credits, and our 2010 report, obviously -- trying to summarize this without reading it -- well, our recommendations specifically dealt, first of all, with Low Income and Historic Credits. We recommended that a carry back be included for -- I'm trying to paraphrase it, not going to be able to do it.

Our recommendation was, to achieve greater budget certainty, the Commission recommends that, for credits being authorized on a going-forward basis, the carry back feature be eliminated for all credits except Low Income and Historic. We recommended that, on a croach (ph) factor basis carried forward to Historic, we reduced from three years to one, and carry back for Low Income be reduced from three years to two.

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And, then, we also recommended that, on Historic Credit, on a going-forward basis, the carry forward be reduced from 10 to 5 years from the year of issuance for credit transferred according to the law.

Mark, do you want to weigh in on that?

MR. GARDNER: I'm fine with everything right there.

CO-CHAIRMAN GROSS: Steven, anything?

CO-CHAIRMAN STOGEL: No.

CO-CHAIRMAN GROSS: Any question on that?

(No response.)

CO-CHAIRMAN GROSS: Then we will carry that forward then with 2012 recommendation.

No. 6 was clawbacks and penalty language. Clawbacks and penalty language. We had recommended 2010 that the Commission -- or that strict statutory clawbacks be enforced, in the case of non-compliance with program requirements. A statutory clawback's been enforced by the State in cases non-compliance programs be included in all tax credit programs currently liable under such provisions.

Commission recommends that all applicants for State and Senate be required to enter into a contract with the agency administering tax credit specifying standards for performance and penalties if in non-compliance.

Was that dealt with any at all?

MR. ZAMKUS: Yes. The Legislature didn't exactly follow the recommendation. What they did do was modify the Tax Credit Accountability Act to grant the authority of administering agencies to promulgate rules that would subject tax credit recipients to clawback provisions. So, it was more permissive. It wasn't a strict statutory requirement for each given program, but rather it allowed those agencies that administer the program on an as-needed basis to adopt rules for those given programs that would subject those credits to clawbacks.

MR. ANDERSON: Was that Jay Barnes' legislation you're speaking?

MR. ZAMKUS: No. Actually, it was compete -- actually, it was in Senator Purgason's Senate Bill 280 in the regular legislative session of 211, Senator Mayer Senate Bill 8 in the special session 2011.

MR. ANDERSON: There was an overreaction on some members of General Assembly on a particular project that really was going to take that pendulum too far in some of the regulatory pieces. It related to this but was not a direct part of the recommendation.

I still support the recommendation, but we did have an overreaction, I think, in this last session that, fortunately, that last legislation did not pass, but there was going to be some very stringent requirements that those companies were not going to take a look at Missouri if those legislation passed.

CO-CHAIRMAN GROSS: I do think this recommendation is consistent or does fit in with the call of the government --

CO-CHAIRMAN STOGEL: yes.

CO-CHAIRMAN GROSS: -- of the Governor on this Commission, and some form of recommendation like this should continue.

Any dissention with this recommendation going forward in 2012?

(No response.)

CO-CHAIRMAN GROSS: Then that will be included in the 2012 recommendation.

The Commission's No. 7 was cost reasonableness. And we recommended -- Commission received information on projects that were funded with State tax credits that were received. Our language said what was considered subsequent subsidy value, square foot unit, et cetera, per base. We discussed whether upper limits should be established which affected those measurements and what the State should spend on particular projects.

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We recommended that DED and MATT monitor projects for reasonableness, promulgate rules, et cetera, et cetera, et cetera. Any comments on that?

(Indicating.)

CO-CHAIRMAN GROSS: Chris.

MR. PIEPER: If I may, Senator, only comment I would make in Dr. Dabsen and Dr. Johnson's report -- that's now been circulated to everyone -- they talk about this cost effectiveness measure as something -- as a matrix to look at sort of in addition to the, you know, the cost benefit kind of analysis. And looking at, particularly, for programs that don't -- that aren't strictly speaking economic development but looking at, you know, what is the effectiveness of the program measured in, you know, dollars per, you know, meals served at a senior center or dollars per whatever the outcome is.

So, I think that there's some good information in there that actually dovetails with this recommendation of the Commission.

CO-CHAIRMAN GROSS: Well, that's what I was trying to -- I was thinking about in listening -- I read that report weeks ago, and then listening today, it seems like, you know, we've all kind of agreed that some of these credits, it just doesn't make any sense to look at it from benefit cost standpoint. There is social credit and things to do good rather than -- rather than bringing a dollar in revenue back to the State.

But that doesn't mean we want to spend money foolishly. So, actually, some measurement and almost, like in my mind, anyway, what we said in our original report was first of all, you know, get the best bang for the buck that you can on the Economic Development Project or credits, and on the other ones, Well, don't worry about it, legislate -- it's a policy decision. If you want to spend money, you know, to fund, you know, housing or whatever it is, then that's your deal.

So, I think, put a little more meat on the bone with this one by recommending at least that they could try to get the best bang for the buck, not in terms of return to the State but in terms of what you get for that dollar that you spend. How many housing units, how many seniors get housing, how many meals are delivered, and that kind of thing.

Any thoughts on that?

MR. ANDERSON: Senator, I agree and, perhaps, even add a minor change, but on the title of cost reasonableness maybe we add "and effectiveness"vwhich is kind of play on the white paper wording as well. That word, I think, resonates very well.

CO-CHAIRMAN GROSS: Is that going to help

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us draft language to that effect? Is that what you do? All right.

Next, Jim, annual appropriation process. Our recommendation, as I think you stated, has not been subject to the appropriation process. But that sunset schedule, statutory caps, you might need to adjust that a little bit because of the change of the sunset schedule issue, would certainly control the growth on the State credit expenditures.

Comments on that.

MR. ANDERSON: I feel very strongly that recommendation is still valid. I would do the change as you suggested that eliminate the sunset language and apply the language we talked about earlier. There was some discussion about whether Social Credits shouldn't be credits at all but should be grants, should be taken out of that whole Tax Credit scheme. And I think that might have been in either one of the reports that we received or from some members.

Sally, do you remember?

MS. HEMENWAY: I think the conversation, if I remember correctly, was whether or not because of the -- because of what you guys were talking about in terms of certainty with some of the Social and Contribution Credits, the question came up about whether or not the

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mechanism to deploy a certain program would be more efficient as a grant program than it would be as a tax credit program. So, I think that's where that question arose.

MR. ANDERSON: Has the Committee made recommendations, I think --

MS. HEMENWAY: Jason --

MR. PIEPER: There are. In Bill Hall's committee, they recommended some of the smaller programs to eliminate those in favor of broadening eligibility, you know, for the bigger programs like NAP and YOP, and then, also, to consider whether some of those are more appropriately a grant.

I think another example, actually, Jim, like the Small Business Incubator which is a tax credit program today, whether or not that makes more sense as an appropriation. I think that was one of the recommendations, and it actually carried over to some of the legislation, because I think some of these programs were set up as tax credits because of Constitutional issues and other reasons of avoiding the appropriations process.

But there may be some that actually do make sense to be appropriated as a more of a social benefit program. There may be some efficiencies to be gained

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there. I think that was the tenor of the discussion.

CO-CHAIRMAN STOGEL: The administration of that, given the breadth of the applicants for some of the Social Credits, like YOP or NAP or AHAP -- I can't remember all the credits on the list -- would be -- put a huge burden on the agency that's trying to choose among all the applications.

The other argument we've heard is that from the non-profits is they go out and find small donors to get small amounts of credits, but those donors overlap in part with volunteer services. So, if just a cash grant went out, how would that ripple affect through all the other non-profits. I think that's way beyond the scope of, you know, where we should go on this. It's a question asked to the Legislature, so be it, but I don't think we have the time or the information to just pick a particular program and try to go to a cash grant program instead of a credit program.

MR. LEVI: If you did that, made the recommendation, that essentially means we're eliminating that tax credit.

CO-CHAIRMAN STOGEL: I'm not sure we need to make the recommendation.

MR. LEVI: Turns into something that has to have an annual appropriation. Completely outside the

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realm of what we're talking about.

CO-CHAIRMAN STOGEL: Right. And I'm not sure we should go there on terms of we were asked to review tax credit programs.

MR. ANDERSON: I think the issue we are still opposed to subject annual appropriations, but as Chris mentioned, at least two of the committees do make reference to this particular issue in their report.

CO-CHAIRMAN GROSS: I would say that one of the charges of this Commission is look for program -- ways to make the programs more efficient. Is eliminating it and turning it into an appropriation a appropriate function of State government, a way to make it more efficient? If it is, I think --

MR. LEVI: How much money was in this? It's really a small --

CO-CHAIRMAN GROSS: Okay. All right. Then, other than the adjustment to the sunset schedule language in the recommendation, is everybody okay with this one going forward?

Will you make that change, yes?

MS. HEMENWAY: Yes.

CO-CHAIRMAN GROSS: Right. That's No. 8. Appropriation.

MS. HEMENWAY: Yes. I'm ready with your

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other.

CO-CHAIRMAN GROSS: Oh, okay. You want to go ahead with that?

MS. HEMENWAY: Sure. You want to close out. This is the language you asked me to write on sunset instead of using the word "sunset" or instead of using that concept.

The Global Issues Committee strongly supports the following principles of certainty that guide the existence of any tax credit program found in Missouri State statutes.

One, each tax credit shall be subject to review using standardized evaluation criteria on a prescribed timely basis.

Two, any tax credit prescribed for elimination by the General Assembly shall be afforded a fair and accurate period of time before elimination, and each such elimination shall have a written transition plan and process established.

Three, any tax credit proposed for elimination by the General Assembly shall be made by -- and I gleaned this last one from other conversations, so it was a little bit of liberty -- any tax credit proposed for elimination by the General Assembly shall be made by authorizations only, and any and all tax credits

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previously authorized or issued shall be considered valid and redeemed upon submission to the State, subject to the existing eligibility criteria -- that's the Do No Harm principal that you captured in your first program.

CO-CHAIRMAN STOGEL: I think the language is excellent, Sally, except for subject to eligibility requirements. That's a modifier that goes to the question of should the credits have been authorized. What you have when you have an authorized credit or be earned as a contract, so we don't want a condition subsequent to that.

MS. HEMENWAY: Okay. But the -- okay. You don't want to do it beyond implied, you would do it beyond the lifetime of the credit.

CO-CHAIRMAN STOGEL: But read the last.

MS. HEMENWAY: Basically, all I was trying to infer by the last piece was there is a life span of a credit.

CO-CHAIRMAN STOGEL: Right. But the credits can be redeemed after a credit program's over is a critical concept, because the program ends, the redemptions goes on for a year or two or three.

MS. HEMENWAY: Okay. I would take the last modifying thing off there. And any and all tax credits previously authorized or issued should be considered valued and redeemed by submission to the State.

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CO-CHAIRMAN STOGEL: Right. Because it's a State.

MR. LEVI: That the concept annual appropriations included in one of those statements?

MS. HEMENWAY: You've already -- do you want that in the sunset deal as well?

MR. LEVI: Doesn't that go with the same, but shouldn't it be a part of this? This is all about certainty, and you talk about principles of certainty was your title.

MS. HEMENWAY: Okay.

MR. LEVI: The other comment, should we use the word "shall" as opposed to the word "should"?

CO-CHAIRMAN STOGEL: A lot of words.

MR. PIEPER: I have a proposal, Co-Chairs. Would it make sense -- for time and efficiency, would it makes sense for time and efficiency, because we're running into the full Commission meeting, if we were to -- based on the discussion here -- prepare draft language and then circulate that to the Committee members so that we can wordsmith on it. Because I fear that we'll be arguing over periods and commas here for the next 30 minutes.

There's obviously a lot of people with good opinions. If that's a way to proceed, just in the interest of time and efficiency, maybe we could do it that

way.

MR. LEVI: That would should or shall, how were we making these recommendations?

CO-CHAIRMAN GROSS: Actually, the way I would like to do this, mine would be, subject the language, as a Committee make the recommendation to the Commission, and then when we get to the Commission, we'll have time to amend that language at the Commission level, because there's nothing really objectionable, just the tweaking is all we're talking about.

Again, this is the Committee report, not a Commission recommendation, and if everybody's okay with that, I would like for her to go ahead -- what she's already written, I would like for us to accept that language and we'll -- knowing we'll change that probably a little bit when we get to the Commission.

MR. ANDERSON: One question of Chair, if I can. The very first principal was a prescribed schedule of review, right? Did I hear that correctly?

MS. HEMENWAY: Each tax credit should be subject to -- change it to "should" -- should be subject to review using standardized evaluation criteria on a prescribed timely basis.

CO-CHAIRMAN STOGEL: Do we want to say what that prescribed timely basis is?

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MR. ANDERSON: That's my concern. That sunsets.

CO-CHAIRMAN GROSS: Just review. Sunset

means it dies unless it's approved. The review just means maybe the statute would say, Okay, every four years, this is going to come before the body.

MR. ANDERSON: Just trying to eliminate the lightning rod.

MR. LEVI: If you eliminate the word "prescribed", would that eliminate timely.

MR. GARDNER: Keep the time frames and make sure your language that you say subject to could be confusing, because it might imply -- read that subject to line.

MS. HEMENWAY: Each tax credit should be subject to review.

MR. GARDNER: How about shall be reviewed. Shall be reviewed.

MS. HEMENWAY: Okay. There goes my "should".

MR. GARDNER: I don't know, or you can --

MR. ANDERSON: As one of the few non-attorneys around this room, I think Chris had a good suggestion.

MR. GARDNER: I forgot. What was the

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suggestion?

MR. ANDERSON: In the time --

CO-CHAIRMAN GROSS: What I suggested earlier, we will, I guess, reconvene the Committee after lunch to do this. So, that was not completed then.

What else? You have something else there for us. No? Okay.

Then, the next item which we moved -- where is that -- New Global Issues. The first one is the stacking issue.

We talked about stacking a lot in 2010, but we didn't have a recommendation in the full Commission on stacking. We have -- actually, we have a recommendation from this Committee, but the Commission didn't like it, I guess. So, we didn't have an overall stacking recommendation. However, you have a handout of part of a report from the State Auditor that touches on this issue, and I thought it was something that was relevant to this Commission to consider.

Sally, do you want to talk about that?

MS. HEMENWAY: Right. We have several audits this past year of the Department, and, specifically, this was an excerpt from an Auditor's report to -- the Auditor looked at both the Historic and Low Income Housing Tax Credits specifically and how they

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worked together and made the following recommendations to the Division that we work with the General Assembly.

They did not make recommendations that the Division was doing anything wrong. As a matter of fact, we were doing things that are consistent with the statutes, but their recommendation was that we work with the General Assembly to establish cost containment projections, project cost claimed under multiple cost programs, to establish revisions to qualify Low Income Housing Tax Credits be reduced by the amount of State Historic Tax Credits issued, and to establish cost containment provisions regarding job creation and investment activities claimed under both billed and other tax cut programs.

So, essentially, the Auditor is telling us to work with the General Assembly to make changes in the statutory language to address any costs that have multiple tax credits applied to them. Okay. So, as an example, in Low Income Housing and in Historic, when you are renovating a historic building into affordable housing, there are costs of that renovation, whether it's the framing or, you know, that are eligible for each credit. That same cost is eligible to capture a credit on. And there is no limitation to that, and the Auditor is saying, through cost containment provisions, that the General

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Assembly should change the legislation to adopt those provisions to limit or cap the amount that you can get from any tax credit or from the State on any one costs.

CO-CHAIRMAN STOGEL: What it is is a dollar for Construction doesn't count as a dollar for Low Income and a dollar for Historic. And the Federal rules -- the Federal Low Income is reduced by the amount of the Federal Historic Credit. So, to respect the Auditor's point, if the recommendation where the State Low Income is reduced identically to the way the Federal rule works or the Federal Low Income is reduced by the amount of the Federal Historic Tax Credits, that's all accountability on a form and it would be a consistent conforming change to the Federal rules.

It basically, then, prevents the same dollar of Construction being counted as a full dollar for Historic as it works, but for Low Income there is an offset for the cost of the State of the historic value.

MR. LEVI: Didn't we have that in the report?

CO-CHAIRMAN STOGEL: That's one we didn't pick up, Pete, that you couldn't have Federal Historic, State Historic, Federal Low Income, and then add also State Low Income as a report. We eliminated State Low Income from that four-block quadrant. This is if you're

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going to allow that four-block quadrant, you should reduce on the margin the State Low Income by the cost of the State Historic. That box wasn't --

MR. GARDNER: My initial reaction to that would be positive to that recommendation. One thing I would like MHCC to do, we used to do historic -- I used to do historic preservation projects throughout Missouri. In fact, I spent -- that's what we specialized in -- in smaller communities like Hannibal and Kirksville and places like that but for the abilities to stack you couldn't have done that preservation. Because people in the smaller communities -- you can do historic preservation in St. Louis and Kansas City, people can pay a thousand dollars a month for an apartment. In Kirksville, Missouri, you can't pay a thousand.

We did historic preservation. We stopped it about three years ago when the Legislature became inflamed over this stacking of credits and it became politically unpopular. Until the Legislature sets down and figures out what they want, I'm done doing it. Now -- so, I'm doing only new construction now.

But, let me tell you, I think it's important that we do something with historic preservation and in some of the these out-state communities. Otherwise, the full benefit of the Historic Credits is

going to be isolated to St. Louis and Kansas City, and the only way you're going to get the benefit of outlying communities is through some form of stacking. Now, one thing would be nice, if you went back and analyzed some of these projects, can we make them work with a formula that Steven has described which is, basically, you take away --

if I'm going to get Federal Historic or State Historic Credits, then you're going to reduce my basis by which I'm going to compute my Low Income Credits, which is going to have the affect of -- of avoiding me double-dipping on the same basis. I can't use the same basis to get more credits.

And it sounds good, and I like it in principal. I would just ask you to look at a sample of projects to see how much of that would carry -- can they economically work, and you look at some -- I'll go back and look at some of mine and see if they could make it work with that formula. And I think -- I think the answer would be yes.

MR. ANDERSON: I don't want to unnecessarily complicate things, but you recall in the recommendation on historic we did the small project exemption. I just wonder if there's an opportunity to your point in terms of where out-state Missouri to do some kind of a small project exemption as it relates to a

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stacking.

MR. GARDNER: In studies over X-thousand people, you apply the formula in the cities.

CO-CHAIRMAN STOGEL: Two very good recommendations, and small project exemption for historics wasn't really addressed in the 2010 report. The

Legislature has picked it up, and we now know, based on research, two-thirds of the projects in the State are in the small project category, and stacking is needed for those small projects, particularly out-of-state. On non-small projects, adopting the Federal rule would prevent the double-dipping that the auditors are addressing.

MR. GARDNER: I'm sorry?

CO-CHAIRMAN STOGEL: On non-small projects, the Auditor's recommendation boils down to it says adopt the Federal rules.

MR. GARDNER: How about if you adopt the Federal rules in communities with populations of above a hundred thousand. Do you think they would support that? And let's make that -- and I'm going to ask, not necessarily make a bond decision on that today, but what the numbers are going to show is you can't pay the rent in those smaller towns.

CO-CHAIRMAN STOGEL: Let's talk about this

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over lunch. But doing something for small projects and cities like Hannibal.

MR. GARDNER: Right.

MR. ANDERSON: Don't want urban versus rural. That's my concern. I'd rather see the projects.

MR. LEVI: Projects versus geographic.

CO-CHAIRMAN STOGEL: There's a right result and there's flexibility that we should have.

CO-CHAIRMAN GROSS: Let me ask this question. Is this an item that should -- this is a new issue -- quote, unquote, new issue for the Global Issues Committee. Is it one that we should even try to make a recommendation on or leave it to the Commission to add that to the recommendations of the Historic and Low Income Committees?

CO-CHAIRMAN STOGEL: We could send it back there and ask them for that input.

MR. GARDNER: I'll make one quick statement. As a practical matter, since we discussed this in 2010 -- and I think we have a couple workers in from MHDC, I think they can verify this -- they have been very selective in approving how Low Income Housing Tax Credit projects also seek Historic Tax Credits. They have choked down how many projects they will approve.

Is that a fair statement?

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UNIDENTIFIED LADY: I would say we're looking very closely at them, yes.

MR. GARDNER: They're really scrutinizing those, so I think -- I don't think the message has gone unheard.

CO-CHAIRMAN STOGEL: Is the list -- a couple years ago, I think it was two or three out of the

20-something projects were historic. So, it was greatly reduced from the number, partly goes back to lack of buildings?

MR. GARDNER: Part of what?

CO-CHAIRMAN STOGEL: Part of the lack is lack of buildings?

MR. GARDNER: Steven, I used to do a lot of historic, and I just quit doing them. There's some of that.

CO-CHAIRMAN STOGEL: The Auditor's got a really good point. Jim's point is really good, too, about small projects. Your point about geography is important, too. We'll send it back to the Committees to come up with a recommendation.

CO-CHAIRMAN GROSS: The next new item is related parties in these transactions. I think this also was suggested as an issue by the Auditor that a related party transaction occurred between two businesses that

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have a personal relationship transactions are legal; however, they may create potential for conflicts in interest.

So, the question is -- I think you were actually addressing this a minute ago with your comments.

(Indicating.)

CO-CHAIRMAN GROSS: Yes?

CO-CHAIRMAN STOGEL: For real estate deals, it's often a developer has affiliated companies. MHCC has done a very good job for setting guidelines for when the developer also owns the architectural office or the management company or the construction company, to prevent piling up of fees on top of fees. The question is, in non-real estate projects, whether the cap on affiliated party engagements should be looked at for other credit programs to make sure there's fair and best bidding, and that's -- that's what the Auditor was asking.

I don't know quite how to define that for different credit programs.

MR. GARDNER: Do we want to make a recommendation beyond just making a statement to the effect that, I mean, MHDC does look at that and they do limit -- for example, I don't think they impact the property management fee because I don't know a property management company that makes money. But they do -- if

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you have an interest in the construction management company, they actually, I think the fee is -- isn't the fee reduced or turned in on that?

UNIDENTIFIED PERSON: I'm not sure about the question.

MR. GARDNER: Is that what your concerns are about?

CO-CHAIRMAN STOGEL: The lack -- the other was about lack of fair bidding when you're giving yourself a contract.

MR. GARDNER: Well, I mean, I will tell you this. As a practical matter, I think that's not an issue, and I'll tell you why. Because, if I want a project from MHDC there, they're really looking at cost per unit and they're studying cost per unit. And I better be able to deliver a project at a low cost, and that's where the pressure comes to keep your costs down. I don't think, if there's anyone in the industry that's doing it, that's somehow inflating costs -- which I don't understand what benefit you could possibly get by inflating costs -- I mean, it only hurts you to inflate costs. I don't know how it would be profitable for them. I guess I don't understand.

CO-CHAIRMAN GROSS: Low Income project, but what about Historic?

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MR. GARDNER: Well, all right, that might be different.

MR. PIEPER: I'll speak to this. I think we've seen and looked at related parties in the historic context, our rules address related parties and so we're -- we do police it to some extent.

In other programs, there's been some recent criticism of the Brownfield program, particularly in where you have relationships between the environmental contractor, the environmental consultant, and the applicant. You know, some of those criticisms were in the press. We require three bids currently just as a matter of our procedures, but it's not, you know -- it's not in law anywhere, and we require those bids to come from a non-related party. So, the agencies, I think, are doing a good job, as Mark said, and in looking in that issue, but, you know, it's not in law and so there's not, you know, a lot of real strong authority for agencies to do that.

CO-CHAIRMAN STOGEL: Should the recommendation be that the Legislature consider giving the agencies who monitor the credits the capacity to issue regulations to require more bidding consistent with the Auditor's report, so you do have the capacity to do that?

MR. PIEPER: I mean, you know, it's the will of the Committee and the Commission. I think that

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that's something that there's been increasing, you know, interest and reporting. As I think Mark said, MHDC, because of their controls on the front end of projects whether they approve them or not and the competitive nature of those projects, they've done a really good job. We've adopted some of what they do on a historic program.

There are other programs out there that may not have that, you know, robust authority there, particularly if they're not a discretionary program, if they're an entitlement program. So, you know, that would be an opportunity for agencies to police that better.

MR. ANDERSON: I would like to say that included as a good faith gesture to the Auditor' report and, again, put in statute basically what's being done by the agency. I think that recommendation has merit.

CO-CHAIRMAN GROSS: And I am fine with our new topics was directly on that point. So, we can include a recommendation that following the practices of good government procurement practices of the State that require three bids -- or, yeah -- three bidding process.

Anything else?

MR. GARDNER: No.

CO-CHAIRMAN GROSS: Fine.

The next item -- maybe we've already covered this. Should caps on programs change as a result

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of the impact of the great recession.

Steven, that was yours.

CO-CHAIRMAN STOGEL: I'll see what the Committee comes back with.

CO-CHAIRMAN GROSS: Okay. Let that go.

The fourth was shadow housing, the available supply of housing because of the, I guess you could say it's also true to that to the great recession and what the impact should have on low income program.

CO-CHAIRMAN STOGEL: Shadow housing is

foreclosed homes that are out there, and Missouri is about in the middle of the country, about 45 percent of the properties or southern close are in the sand states of Nevada, Arizona, and Florida.

CO-CHAIRMAN GROSS: In other words, we have a glut of homes that have been foreclosed on, so we don't really need a Low Income program to find low income housing.

CO-CHAIRMAN STOGEL: The foreclosed houses, some of them become affordable housing and on a more cost-effective basis. So, I would ask Mark.

MR. GARDNER: We had talked about it more during my committee, or we talked a lot about it there.

CO-CHAIRMAN STOGEL: All right. Let's hold it to your Committee report. That's one of the great

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offenses of a greater recession, what a full family home is.

MR. GARDNER: Right.

CO-CHAIRMAN GROSS: So, to summarize real quickly and then we can get lunch.

I'm going to suggest that at 1:00 we reconvene this committee for 15 minutes just to see the language that Sally is working on, and we'll talk to you all about that during lunch.

I think at 1:00 we come back, isn't it?

And, so, we'll read that in, we'll have a formal vote of the Committee, and then we'll have our report and then be introduced to the Commission later this afternoon.

The issues that are hanging out there are -- was there something on the turn of investment? I think that was --

MS. HEMENWAY: I think your return on investment questions actually are part of the conversation that you had under cost reasonableness where it comes to the evaluation of tax credits using either a cost benefit or a cost effectiveness measure. So, I think your No. 1 kind of blends into No. 7.

CO-CHAIRMAN GROSS: Because our recommendation in 2010 on return on investments, a reminder, was all REMI-related, and I think after

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discussion today we're going to get off with just a REMI-reliance model for programs going forward, and we have to adjust that recommendation.

So, let's talk about that over lunch and maybe we'll end up not having it a separate recommendation on the return. Like you said, combine that with program effectiveness. We're going to look at work on a language on sunsets, so get everybody on that so we can finish that one. And that is it.

MR. ANDERSON: Senator, can I micromanage? Could we get together before, 12:50 or so, and stay on time for the full Commission meeting?

CO-CHAIRMAN GROSS: I'm fine with that.

MR. ANDERSON: I'm afraid, as afternoon goes on, we lose people.

CO-CHAIRMAN GROSS: 12:45. 12:45.

And is lunch across the hall?

MR. PIEPER: Yes. It's actually at the University Club.

CO-CHAIRMAN GROSS: Down the hall and across the way, that open area. So, we will recess until 12:45.

MR. LEVI: Is it going to go to 4:30?

CO-CHAIRMAN STOGEL: We'll try to get out of here by 4:20, 4.

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CO-CHAIRMAN GROSS: If we can be as efficient as we were the last hour of this one.

So, we'll recess until 12:45 and -- we'll recess until 12:45.

(Whereupon, the record ended at 12:09 p.m.)

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C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Pamela S. Gentry, Certified Court Reporter with the firm of Midwest Litigation Services, do hereby certify that I was personally present at the proceedings had in the above-entitled cause at the time and place set forth in the caption sheet thereof; that I then and there took down in Stenotype the proceedings had; and that the foregoing is a full, true and correct transcript of such Stenotype notes so made at such time and place.

Given at my office in the City of Jefferson, County of Cole, State of Missouri.

Pamela S. Gentry, CCR #426